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S E C R E T SECTION 01 OF 04 DAMASCUS 000070

SIPDIS

SIPDIS

STATE FOR NEA/ELA, EEB/TFS; TREASURY FOR U/S LEVEY; NSC FOR
ABRAMS/SINGH

E.O. 12958: DECL: 01/31/2018

TAGS: ECON, EINV, EPET, ETTC, PGOV, PINR, KCOR, SY
SUBJECT: MAXIMIZING THE IMPACT OF RAMI'S DESIGNATION

REF: A. DAMASCUS 54
B. 05 DAMASCUS 2364
C. 06 DAMASCUS 03

Classified By: Charge d'Affaires Michael Corbin for reasons 1.4(b,d)

SUMMARY

1. (S/NF) As Washington moves towards designating Rami Makhoul, Embassy Damascus recommends that the Department's roll-out strategy focus on linking his corrupt activities to consequences suffered by the Syrian people (see para 11). In some of the largest economic sectors -- electricity, petroleum, and telecommunications -- Makhoul has used government instruments to squeeze out legitimate businessmen, receive lucrative public contracts, establish cash cows and then milk them with impunity from oversight or competition. Significantly, several of his ventures exploit weaknesses in the Syrian economy and undermine reform efforts while increasing the burden on Syria's lower classes. Embassy contacts report that Makhoul is anticipating his eventual designation, and that he has taken steps to lower his profile and mitigate risk to his personal fortune. End summary.

MAKING THE CASE...

2. (C) In one well-known example, Makhoul used his regime ties to muscle-out the local agent for Iberdrola, just before the Spanish company was awarded a 430 million-euro contract to build a new power plant. Having previously obtained exclusive rights to represent Siemens, Rami profited again when additional power infrastructure projects were awarded to the German company. Currently, both the Iberdrola (Iberinco) and Siemens projects are behind schedule and over-budget. Over the same period, the Syrian public suffered from rolling blackouts and increased electrical bills. During last summer's August heatwave, poorer neighborhoods went without power up to ten hours per day while Prime Minister Utri blamed Syria's electrical woes on "international pressure" rather than insufficient SARG investment in infrastructure. Blackouts have recently returned to Syria and Rami's avarice (reportedly demanding a USD 30 million "commission" in Iberdrola's case) is a key contributing factor.

3. (U) Rami is suspected of delaying the SARG's anticipated licensing of a third GSM service provider in Syria until he closes a deal to sell SyriaTel, which reportedly earned USD 692 million in 2007 alone. Since GSM service was first introduced in 2000, Syrians have been forced to choose between two providers, Makhoul's SyriaTel and Areeba (now MTN), which was reportedly owned by First Lady Asma al-Akhras' family. Syrians widely resent the duopoly's ability to set prices for the entire country. With market forces unable to compete, regime corruption elevated the price of basic GSM service on which the average Syrian relies as his primary means of communication. (There are six million mobile subscribers to roughly three million land-line connections.)

4. (C) At a time when Syria's petroleum exports are contracting and the Syrian people are increasingly suffering

from fuel shortages, Rami's presence in the petroleum sector is exacerbating the problem. The French company Total proposed a venture that would have brought additional Syrian gas reserves on-line in time to avert recent shortages, but the deal has inexplicably floundered facing SARG bureaucratic inaction. Similarly, a Shell offer to upgrade and increase capacity of Syrian refineries remains mired in SARG

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bureaucracy at a time of acute shortages in refined product. Interestingly, the only petroleum project currently proceeding at full-speed in Syria is the Gulfsands (35 percent) "strategic partnership" with the Rami-led Cham Holding Company (65 percent) to develop the recent oil and gas discovery in the Khurbet East region (Northeastern Syria). According to a Gulfsands' statement, the joint venture soon expects to bring 10,000 bpd of new oil production on-line.

5. (U) In a particularly brazen venture, Makhoulf also seems intent on profiting from the impact of US sanctions on Syrian Arab Airlines. Rami's Cham Holding Company (40 percent) has joined with Syrian Air (25 percent) and the Kuwaiti company Al Aqeelah (35 percent) to create the first "private airline" in Syria, dubbed the Cham Pearl. The Kuwaiti company's subsidiary, Aqeeq Aviation Holding, is apparently exploring ways to circumvent US sanctions and provide commercial aircraft. Once operational, Cham Pearl intends to take over Syrian Air's most profitable routes of three hours or less -- 75 percent of Syrian Air's business -- from Damascus to major regional airports, leaving Syrian Air with the less profitable long-haul routes. (See "Syria: Opening Skies," Oxford Business Group, January 29, 2008)

6. (U) Makhoulf remains unabashed about employing SARG muscle when necessary. In one oft-repeated example on the Damascus street in 2007, a Syrian businessman purchased a prime piece of real estate along the Mezzeh autostrade and received a permit from the city to construct a large apartment building.

As the project progressed, the SARG security services informed the building's owner that he could not complete his project as it would allow future occupants to have direct line-of-sight to the Damascus airport. Rami's agents then visited the distraught owner and offered to buy the unfinished building for a fraction of the property's actual value. Rebuffing Makhoulf's initial offer, the owner sought recourse in the local courts for weeks to no avail. In late 2007, Cham Holding announced that it had acquired the property and would be developing a five-star Marriott hotel on the site at a cost of USD 70 million.

7. (C) Note: A hospitality-industry contact told Econoff that Rami and Nabil Kuzbari (ref A) had traveled to the US and met with senior Marriott executives in December to present a potential business proposal and discuss design options for

the site. According to the contact, the Syrians left the US believing they had closed the deal and upon returning, prematurely leaked their success to the local media. In late December, Marriott reportedly informed Cham Holding that it was no longer interested in the proposal due to "political reasons." End note.

8. (U) Although difficult to prove, various internet-based newsletters claim that Makhoulf is the political patron of many high-ranking public SARG officials, including Minister of Construction Hamud al-Hussein, Minister of Petroleum Sufian Allaw, Minister of Electricity Ahmad Khalid al-Ali, Central Bank Governor Adib Mayaleh and former Minister of Telecommunications Amro Salem. As officials with these portfolios would be in position to wield substantial influence over industry regulation and lucrative tenders, it is doubtful that Rami would have enjoyed such uncanny business successes without government collusion.

DIFFUSING RESPONSIBILITY

9. (U) Since returning from his brief exile in Dubai (ref B), Rami has taken several measures to try to both lower his profile and insulate his personal fortune. In 2006, Makhoulf

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founded the Al Mashrek Fund, a holding company with a reported capitalization of SYP 4 billion (USD 80 million), including SYP 1 billion (USD 20 million) in cash deposited with Banque Bemo Saudi Fransi. Later that year, Makhoulf and 69 prominent Syrian businessmen formed the Cham Holding Company with an initial capitalization of USD 200 million, now estimated to be worth USD 350 million. Representing Makhoulf, the Al Mashrek Fund is the majority shareholder in Cham Holding, which currently has 65 partners and a ten-member board of directors. By mid-2007, Cham Holding was pursuing six "landmark" development projects valued at USD 1.3 billion, primarily in energy, transportation and real estate. (See The Syria Report, April 30 and Sept 12, 2007)

USING CUT-OUTS AND PRIVATE BANKING SECTOR

10. (S/NF) In addition to his public financial activities, Makhoulf has undertaken several behind-the-scenes machinations to mitigate his financial risk. Possibly concerned by the vulnerability of UAE banks to US pressure -- or frustrated by Emirati laws limiting foreign investment to real estate and the stock market -- Rami reportedly brought a part of his fortune back into Syria in 2006. According to a well-informed contact, Rami befriended then-expatriate Syrian Morthada al-Dandashi in Dubai and hired him to manage many of

Makhlouf's "parallel" financial activities in Syria. The contact said that Rami paid Dandashi's USD 2 million "ante" to become a partner in Cham Holding, and deposited significant sums under Dandashi's name in the Damascus branch of the Lebanese Byblos Bank -- where Dandashi subsequently became a partner. Syrian-Austrian citizen and Cham Holding director Nabil Kuzbari is also reported to have deposited money for Rami in Austrian banks. Finally, contacts say Makhlouf has also opened accounts under different names in Lebanon, Greece, Turkey, and possibly Cyprus -- where Post has learned that Rami once explored obtaining citizenship.

SUGGESTED ROLL-OUT THEMES

11. (U) Post recommends the following themes for public statements regarding the designation of Rami Makhlouf:

-- Electricity: Rami Makhlouf used his influence with the regime to gain lucrative contracts in the power sector. Yet, as the Syrian people continue to suffer from chronic power outages and higher electrical bills, Rami has already been paid for projects that are behind schedule and well over-budget.

-- Petroleum: Although several Western petroleum companies are interested in helping Syria develop its gas and oil sector, the only new project to be proceeding without SARG impediment is Rami's. As a result, Syria has become a net importer of petroleum products. In the midst of an unusually severe winter, severe fuel shortages are forcing the Syrian public to wait in long lines for, and frequently go without, heating fuel for their homes.

-- GSM service: Rami Makhlouf has made millions of dollars from his ownership of SyriaTel, one of only two GSM service providers in Syria. Currently, Rami is said to be blocking the licensing of a third GSM provider until he completes a deal to sell SyriaTel. Until free market forces are allowed to compete, Makhlouf will continue to subject the Syrian public to artificially elevated prices for basic telecommunications services.

-- Aviation: The Syrian national air carrier, Syrian Arab

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Airlines (Syrian Air), has an aging fleet that is in need of replacement. Rather than addressing any of Syrian Air's needs, the Assad regime instead awarded Rami Makhlouf a license to operate a private airline that intends to assume the most profitable of Syrian Air's routes.

-- Tourism/Hospitality: The Syrian people are known for their hospitality and entrepreneurial expertise. Unfortunately,

legitimate Syrian businessmen hoping to invest in the emerging tourism sector have again been muscled-out by Rami Makhlouf and regime thugs who wish to monopolize every opening in the Syrian economy for their own profit, rather than share the country's potential with the hard-working Syrian people.

COMMENT

12. (S/NF) Makhlouf's efforts to divest and diversify suggest that he is expecting eventual USG action against him, particularly since the November 2007 designation of his brother, Hafiz. Although his countermeasures will likely mitigate the impact of his designation, we believe that it will still send a strong signal to the regime and to his current and potential future business partners. Corruption is a theme that resonates here, as every Syrian has been a victim of it. Rami has long been Syria's poster-boy for corruption, so making the charge stick is not difficult. Citing examples that impact the daily lives of Syrians should help to amplify the designation's roll-out and ensure that it receives the widest possible coverage.
HOLMSTROM

=====CABLE ENDS=====